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TAGS: [MTCRE](#) [ETTC](#) [KSCA](#) [MNUC](#) [PARM](#) [TSPA](#) [FR](#) [BR](#)
SUBJECT: IRANIAN SHIPPING IN A POST-UNSCR 1803 ENVIRONMENT

Classified By: ISN/MTR Director Pam Durham.
Reasons: 1.4 (B), (D), (H).

¶1. (U) This is an action request. Please see paragraph
¶2.

¶2. (C) ACTION REQUEST: Department requests Embassy Paris provide the interagency cleared paper "Iranian Shipping in a Post-UNSCR 1803 Environment" in paragraph 3 below to the French Missile Technology Control Regime (MTCR) Point of Contact (POC) for distribution to all Partners. Info addressees also may provide to host government officials as appropriate. In delivering paper, posts should indicate that the U.S. is sharing this paper as part of our preparation for the Information Exchange that will be held in conjunction with the MTCR Plenary in Rio, November 9-13, 2009. NOTE: Additional IE papers will be provided via septels. END NOTE.

¶3. BEGIN TEXT OF PAPER:

(SECRET REL MTCR)

Iranian Shipping in a Post-UNSCR 1803 Environment

Summary:

As a follow-up to our 2007 Information Exchange paper on the Islamic Republic of Iran Shipping Lines (IRISL), this paper discusses the developments of Iranian maritime shipping of WMD- and missile-related goods in the wake of sanctions imposed under United Nations Security Council Resolution (UNSCR) 1803 and United States Executive Order (EO) 13382. These sanctions, in combination with the downturn in the global economy, appear to be having adverse effects on Iran's primary maritime carrier of controlled items -- IRISL -- and its ability to do business, thereby indirectly impacting Iran's ability to deliver sensitive items to its own companies for its programs. In response to these difficulties, IRISL has adopted a number of changes to its activities and structure in an attempt to disguise its Iranian affiliation and avoid sanctions. The January 2009 M/V MONCHEGORSK case demonstrates the extent of these denial and deception efforts. Missile Technology Control Regime (MTCR) members should be aware of these deceptive techniques and continue to monitor IRISL for application of these techniques to more sensitive shipments.

Background:

As noted in our 2007 paper, IRISL is the national carrier for Iran and the twenty-third largest shipping line in the world in terms of cargo capacity. Headquartered in Tehran, the company is subordinate to the Ministry of Commerce and has historically been owned by the Iranian government. Although IRISL was recently privatized, having its initial public offering of shares on the

Tehran stock market in 2008, the government probably still maintains control of a significant number of shares, although the exact percentage is unclear. As a result of its Iranian domestic and government connections, IRISL has long been Iran's preferred maritime carrier for the import of materials for its ballistic missile programs.

IRISL's size and global operations allow the company to facilitate the movement of ballistic missile-related materials. The company controls a fleet of about 150 vessels, including ships they charter, lease, and own. This fleet includes modern container ships, breakbulk ships designed for carrying general cargoes, and numerous bulk carriers designed to carry large quantities of loose material. IRISL maintains a vast network of port calls and schedules, although several services have been downsized or eliminated in the wake of the recent global downturn in trade. This global reach has long facilitated the import to Iran of controlled materials. In a 2009 interview, IRISL claimed the company shipped 30.6 million tons of cargo in the previous Iranian year and had revenues of \$1.6 billion in 2007. By its own estimates, the company carried approximately 35 percent of Iranian cargoes, and had expansion plans designed to increase that market share to 50 percent.

This extensive reach enables the company to easily move materials and equipment for Iran's ballistic missile and WMD programs into the country. The use of the Iranian flag for some of IRISL's ships extends the power of Iranian law over the ships, and is likely seen as an added security benefit by Iran's military programs.

Additionally, the company's numerous services to Iran, a market not extensively serviced by other shipping lines, provides ease and convenience of transport through direct calls in Iranian ports. Given these factors, IRISL serves as the preferred carrier of goods for Iran's ballistic missile, WMD, and military programs.

In March 2008, the United Nations Security Council adopted UNSCR 1803, which calls upon all States "to inspect the cargoes to and from Iran, of...vessels, at their...seaports, owned or operated by...Islamic Republic of Iran Shipping Line, provided there are reasonable grounds to believe that the...vessel is transporting goods prohibited under this resolution or resolution 1737 (2006) or resolution 1747 (2007)." In September 2008, the United States designated IRISL and 18 of its subsidiaries under Executive Order (E.O.) 13382, "Blocking Property of Proliferators of Weapons of Mass Destruction." This designation freezes any U.S. assets IRISL might have. At the same time, IRISL and 123 of its vessels were also added to the U.S. Department of the Treasury's Specially Designated Nationals and Blocked Persons List. The listing of these ships also includes each vessel's unique International Maritime Organization number, which allows for the identification of each vessel regardless of its owner or charterer. By blocking these ships and IRISL affiliates, the Treasury Department instructs banks to reject any fund transfers involving these vessels or entities - effectively restricting IRISL from doing business in U.S. dollars. Since requirements for the dispersal of letters of credit insist that the name of the transporting ship be included on the bill of lading submitted to the bank to prove shipment, banks are in a key position to detect the movement of cargoes on IRISL ships.

Concurrent with the imposition of sanctions, the global economic crisis resulted in a significant drop in the flow of international trade by sea. As the demand for shipping declined in late 2008 and early 2009, the entire shipping industry has experienced significant financial hardship, and responded by reducing services and expenses. Numerous shipping companies have mothballed ships for lack of paying cargoes - by some estimates these ships amount to ten percent of the global container

fleet. IRISL has not been immune to these economic pressures. These larger commercial factors have had a significant effect on IRISL's corporate finances, to the extent that the Iranian government announced its intentions to provide IRISL additional operating funds.

Post Sanctions Reaction:

Initially, public reactions of IRISL leadership to the sanctions were dismissive. However, changes in IRISL's operating procedures -- implemented since September 2008 -- suggest that the company is actively taking measures to minimize its Iranian identity and associated vulnerabilities. Many of these changes, which probably result in additional expenses to the company, have been taking place at a time when IRISL is likely suffering a significant decline in revenue due to global economic conditions. These changes, while probably motivated at least in part by an effort to remain commercially viable in the face of sanctions, have the potential to mask the movement of shipments to Iran's missile and WMD programs, and in some cases appear to be contrary to expected commercial behaviors.

New Names for Ships

Since September 2008, the most noticeable change in IRISL's methods of doing business has been in the abandonment of its thirty-year policy of using Iranian names and flags for its ships. Since 1979, when the company was nationalized in the wake of the Iranian Revolution, the company has been characterized by its extensive use of Iranian nationalist symbols in the design, dcor, flagging, and naming of its ships and fleet - e.g., ships were painted with the company name, stack markings included the national colors and coat of arms of Iran, ships were registered under the Iranian flag, and ships were usually named after Iranian provinces, towns, or religious figures, and most had "Iran" in the name itself. Within six months of the E.O. 13382 designation, IRISL had changed the names of about forty of its ships, with some changing their names multiple times. The ships now bear English-language names with no symbolic connection to Iran. Furthermore, 76 ships have left the Iranian registry and been reflagged under flags of convenience: 54 ships have been registered in Malta, and 18 have been registered in Hong Kong. Other ships have been registered in Cyprus and Germany.

New Owners and Registries

Additionally, commercial sources indicate that IRISL has transferred the ownership of many of the listed vessels to nominally independent third-party ship-owning or management companies. These companies appear to remain connected to IRISL, and there are indications that IRISL remains the ultimate financial beneficiary of the ships, operations. The use of these nominally independent companies, a long common practice in the shipping industry, represents a significant divergence from IRISL's traditional practice, which maintained IRISL as its fleet's registered and beneficial owners.

These changes are probably intended to facilitate IRISL's ability to move cargoes by obscuring its involvement in routine transfers. While IRISL executives insist these changes are unrelated to international sanctions, this drastic change to past practice would seem to indicate otherwise. Furthermore, these changes represent a significant cost for IRISL in registry fees and affiliated expenses. In addition to the fees paid as part of the registration process, the flag used can also impact operating costs such as port fees - countries can provide discounted rates and tariffs for ships of their own flag. Interviews with independent Iranian shippers indicate that operating under foreign flags of convenience is more expensive for an Iranian ship. Since

IRISL is currently experiencing a significant decline in income given the global economic crisis, incurring such significant expenses in a period of severely declining revenue is contrary to expected commercial practices.

Financial Issues

According to trade publications, IRISL started to have difficulty paying for its new-build ship orders in South Korea as early as December 2008. In April 2009, these shipyards refused to deliver three new-build ships that IRISL had ordered in 2006 due to IRISL's failure to make its payments. While the global decline in trade and the resulting decline in the value of ships have affected many shipping companies, ability to finance new builds, IRISL was the first and most prominent shipping line to default on its payment obligations, implying that the company may be in severe financial straits.

M/V Monchegorsk Case

Another example of a change in IRISL's operations is the case of the M/V MONCHEGORSK. On January 19, 2009, the USS SAN ANTONIO conducted a consensual boarding of the M/V MONCHEGORSK in the Red Sea. Owned by a Russian company and registered in Cyprus, the MONCHEGORSK bore no overt connections to Iran. However, examination of the ship's documents revealed that it was under charter to IRISL, carrying arms-related materiel bound for Syria from the Iranian Defense Industries Organization, which is designated under UNSCR 1737. Cyprus, the flag state, recalled the ship. The cargo was inspected in a Cypriot port, and continues to be detained in Cyprus. The Republic of Cyprus confirmed the cargo included arms-related materiel and reported the incident to the UN Security Council's Iran Sanctions Committee which determined the transfer was in violation of UNSCR 1747, which prohibits Iran from the "supply, (sale) or transfer ... (of) arms or related materiel." While this cargo was not associated with Iran's or Syria's ballistic missile programs, the Monchegorsk case suggests a willingness by Iran and IRISL to employ evasive measures beyond renaming and reflagging in order to move goods in violation of international sanctions.

At the time IRISL chartered the M/V MONCHEGORSK, several of the company's own ships were laid up outside of Bandar Abbas, Iran. These ships, each of which would have been capable of carrying a shipment of ammunition to Syria, had been anchored for several months, probably for lack of cargo. Chartering M/V MONCHEGORSK likely required additional costs given that it would probably have been less expensive for IRISL to use one of its own ships to deliver the arms to Syria instead of paying another company to charter a ship and crew. However, IRISL apparently chartered the MONCHEGORSK not to save money, but to obscure the Iranian origin of the sensitive shipment.

This shipment would likely not have been identified if not for the boarding of the ship and inspection of its cargo and documents. The ship chartering sector can be a very dynamic sector of the industry; ships can be chartered for short time periods or specific voyages. Charter arrangements are not always publicized - while a chartered container ship will often be included on a shipping line's published schedule, a chartered general cargo ship conducting a point-to-point delivery on a short-term voyage charter is rarely common knowledge. The use of chartered ships with third-country flags and ownership therefore has the potential to obscure the origins of sensitive cargoes.

Conclusion:

IRISL likely continues to support Iran's ballistic missile programs and the company countermeasures to sanctions may make it more difficult to identify

sensitive shipments. While this is likely an effort primarily to ease the impact of sanctions on its vast commercial business, the measures implemented can easily obfuscate the Iranian affiliation of the ships, line, and cargo. MTCR Partners must remain vigilant to the true IRISL affiliation of reflagged, renamed, and chartered Iranian cargo ships. This can most easily be done through a ship's International Maritime Organization number, which remains the same throughout its life.

Iran's attempt to use chartered ships to transport restricted materials presents the risk that shipments of sensitive materials for Iran's missile and other WMD programs may go undetected. While it remains to be seen if IRISL will try to use this method again, vigilance is required to detect and identify the methods that Iran could use to defy sanctions.

END TEXT OF PAPER.

¶4. (U) Please slug any reporting on this or other MTCR issues for ISN/MTR. A word version of this document will be posted at www.state.sgov.gov/demarche.

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